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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

Jordan's 1972 Financial Outlook

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1972

INTELLIGENCE MEMORANDUM

JORDAN'S 1972 FINANCIAL OUTLOOK

Introduction

1. Jordan continues to face severe budgetary problems in 1972. Expenditures are projected to increase by 1%, compared with 11% for domestic revenue, but foreign aid is projected to decline about 25% from last year's level. A large portion of the decline in aid results from a projected reduction of US assistance from $48 million for the 1971 budget to $32 million for 1972. King Hussein is likely to seek an increase in the US budget support during his Washington visit this month. This memorandum describes the present budgetary difficulties, the need for foreign aid, and the options open to Jordan if requested aid is not received.

Discussion

Background

2. Jordan* presently is far from being economically self-sufficient. It has few natural resources and little industry, and roughly one-third of its population is composed of refugees. The government is the major employer and clearly the determining force in the economy. Government outlays generally equal about three-fourths of gross national product (GNP). With expenditures so high relative to output, Amman is in no position to raise enough tax revenue to meet its needs. Thus Jordan depends on foreign aid to finance a major portion of its spending.

* Unless otherwise specified, the term **Jordan** refers to the territory under the **de facto** control of the Government of Jordan. Since the June 1967 war with Israel, such control covers only territory east of the Jordan River.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

Recent Budget Experiences

3. Immediately prior to the 1967 war, Jordan was spending roughly $50 million more than it collected in domestic revenues. The deficit was made up by aid, mostly from the United States and the United Kingdom. The deficit nearly tripled in 1968, the first full year after the war, and then increased to $162 million (including unpaid obligations) in 1971. From 1968 through 1970, aid covered roughly three-fourths of the deficit and domestic borrowing the remainder. Almost all budget aid came from Kuwait, Libya, and Saudi Arabia under the terms of the September 1967 Khartoum Agreement. From September 1967 to September 1970, when heavy fighting developed with the fedayeen, Arab aid averaged about $105 million annually.

4. After the 1970 flareup, Kuwait and Libya suspended their payments of $39 million and $25 million, respectively. Kuwait resumed payments in December 1970, only to suspend them again the following month. Jordan's Khartoum aid came to about $93 million in 1970. In 1971 the United States again became the major supplier of budget aid, providing about $48 million – including $15 million that was spent but not officially transferred until February 1972; Khartoum aid amounted to only $42 million; and another $13 million came from other sources. Even though the decline in Khartoum aid was offset by new aid, especially from the United States, the budget deficit rose, requiring increased domestic borrowing, which jumped from $24 million in 1969 to $34 million in 1971. It was also necessary to withhold payments on certain obligations.

The 1972 Budget

5. Cash budget outlays during 1972 are projected to be $265 million, of which $21 million represents unpaid obligations. The actual increase in purchases of goods and services is about 2% (see Table 1). Defense, public security, and civil service payments represent 73% of total budget allocations excluding unpaid obligations. Debt service and development each account for more than 10% with the remainder being allocated for emergency expenses.

6. Domestic revenue is expected to increase by about 11% to $112 million, leaving a deficit of $153 million. So far, Jordan has received pledges of $77 million in foreign aid to finance the deficit. This includes $32 million from the United States and $45 million from Saudi Arabia. The remaining $76 million shortfall will have to be covered by new, unspecified, foreign aid or domestic borrowing.

Table 1

Jordan Cash Budget a/

	Million US $	
	1971	1972 b/
Total expenditures	263	265
Purchases of goods and services	240	245
Unpaid obligations from previous budgets	23	21
Domestic revenues	101	112
Deficit	*162*	*153*
Financed by:		
Foreign aid	103	77
Borrowing c/	39	30
Unpaid obligations	21	20
Overall position	*1*	*-26*

a. Because of rounding, components may not add to the totals shown.
b. Estimated.
c. Including $4.5 million in IMF compensatory financing in 1971.

7. Amman does have the option of cutting the deficit by lowering expenditures or by stopgap financial measures, such as delaying payment of bills due. The potential for these devices is limited, however, perhaps to only a few million dollars. It is unlikely that Amman will reduce overall expenditures unless no other alternative exists. Development outlays could be reduced somewhat, especially for projects whose rationale is more political than economic, but projected expenditures on economic development already are painfully low. Amman considers any reduction in armed forces spending as unwise in the light of fedayeen sabotage activity and tense relations with neighboring countries. Moreover, any reduction in spending for the armed forces or civil service would result in personnel cuts at a time when alternative means of employment are unavailable.

8. Jordan can increase domestic borrowing somewhat. Because the critical factor is psychological, it is not possible to make precise estimates of how much could be borrowed without serious consequence. Jordan already has a relatively large money supply – $300 million for a GNP of roughly the same amount – reflecting a high willingness to hoard cash. Net borrowing could perhaps be increased safely about $30 million without adversely affecting the willingness of the public to hold large cash balances. Domestic borrowing is now close to statutory limits, and, although the statutes can be changed, the government is worried about the impact that an increase in the debt ceiling would have on the business community and the public generally. During 1970 the government raised the ceiling for treasury bills from 15% of currency in circulation to 25%; another increase of 10 percentage points would be needed to cover domestic borrowing of $30 million. An increase of this magnitude probably would not be alarming. The likelihood of capital flight and aggravated balance-of-payments problems almost certainly would be too great to allow increases in domestic borrowing above this level.

9. Thus Amman will have about a $46 million cash shortfall, but it could possibly be much higher. The Jordanian armed forces budget is at about $12 million below the amount in the five-year reorganization plan given to US government officials last year, and the army is asking for more money. Jordan also may have to pick up the funding of some activities that the United Nations Relief and Works Agency (UNRWA) is dropping because of lack of funds, and this could cost another $2 million. Altogether the budget cash shortfall could rise by another $14 million to $60 million. Perhaps $20 million in unpaid bills could be carried over into 1973, leaving a 1972 cash deficit of between $25 million and $40 million, depending on whether the $14 million in additional expenditures are incurred.

10. Jordan will be particularly hard pressed in the first half of 1972 (see Table 2). Although Amman plans to spend about $27 million less in the first half of the year than in the second half -- $119 million versus $146 million -- revenues including foreign aid are expected to be about $54 million less in the first half. Both domestic receipts and foreign budget support are projected to increase in the second half -- by $22 million and $32 million, respectively. US budget support aid will not be received until US fiscal year 1973; the $15 million received in February of this year was treated by Jordan as a 1971 receipt. Domestic receipts normally are larger in the latter part of the year, as the government receives $10 million to $15 million in December from profits of the Central Bank and corporations in which the government holds an interest. Amman can alleviate the situation to a great extent by undertaking most of its borrowing in the first half of 1972.

Table 2

Jordan Cash Budget
1972

Million US $

	Jan-Jun	Jul-Dec	Total
Total expenditures	119.2	146.1	265.3
Purchase of goods and services	112.2	132.4	244.6
Civil service	30.5	36.7	67.2
Public security	6.6	6.6	13.2
Armed forces	47.0	51.0	98.0
Development project	18.1	12.9	31.0
Foreign loans	3.8	14.3	18.1
Public debt	2.0	6.7	8.7
Emergency	4.2	4.2	8.4
Unpaid obligations from previous budget	7.0	13.7	20.7
Domestic revenue	45.0	67.0	112.0

Conclusions

11. Jordan can avoid severe financial strains in 1972 only if foreign budget support aid beyond that already committed becomes available. If additional foreign aid is not received, Jordan would have to increase domestic borrowing still more and cut expenditures. A dramatic increase in domestic borrowing could possibly create a highly unstable financial situation. A sharp cut in expenditures would risk adverse economic and political consequences.

12. A decline in foreign aid could also have serious balance-of-payments consequences. With less aid, foreign exchange reserves would have to be drawn down to maintain current import levels. Since reserves are still very large – more than one year's imports – a gradual drain could continue for some time. Nevertheless, if there were no reasonable expectation that sufficient foreign aid would be forthcoming to prevent a major reserve loss, Jordanians would expect exchange and import controls to be imposed soon. Accelerated conversion of dinars into goods

and foreign exchange then would occur, and a monetary crisis would develop. On the other hand, if the government did effectively curtail imports, the result could be rapid inflation.